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National currency and government credit

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[1868?]

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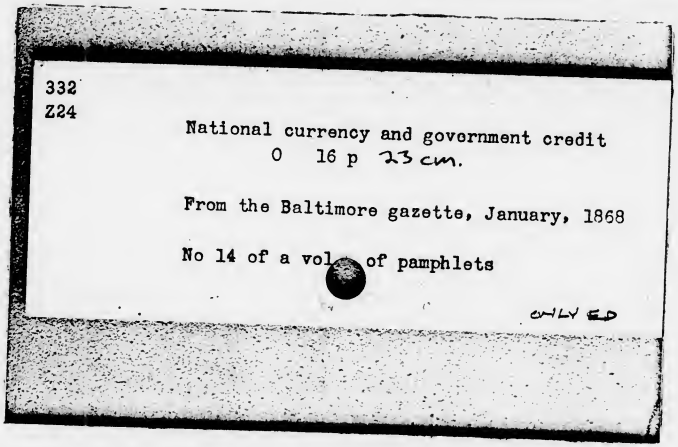
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No. 14

NATIONAL CURRENCY

AND

GOVERNMENT CREDIT.

REPRINTED
FROM THE
BALTIMORE GAZETTE.
JANUARY, 1868.

Congress and the Currency.

During the month of December two very important propositions were brought before Congress. The object of the first, which originated in the House, was to put a further step to the contraction of the legal-tender currency. The second was the financial bill of Mr. SHERMAN, introduced into the Senate. With his plans for swapping bonds we have nothing to do. The indebtedness of the Government, so soon as the compound interest and seven-thirty notes are funded, will be in a most excellent shape. Government will have the option of paying it off, from time to time, during a long series of years, at its own pleasure. Neither do we see the sense of a loan payable in Frankfort and London. New York is rapidly becoming the great commercial centre of the world. When the Pacific Railroad is completed, its position as such will be still more firmly established. When we consider the somewhat arrogant assertions made by leading men during the past few years, it is rather a contrasting humiliation to see them proposing to make the bonds of the Government payable in a foreign country.

A portion of the report which accompanies the bill introduced by Mr. SHERMAN relates to the currency. Mr. SHERMAN calls the "greenback" a standard of value for the capitalist. He talks about inflation of prices and inflation of currency as if they were the same. He says: "We need not refer to writers on "political economy to show that an increase "of paper circulation does not add to the "wealth of a community," and in the next sentence almost he says: "Paper money not "convertible is a device to lessen wages, to "increase capital, to add to the value of accu-"mulated wealth."

Now, if Mr. SHERMAN had carefully studied writers on political economy and compared their experiences with the experiences of later days, he would very probably have written differently, and he pretty certainly would not have contradicted himself. Political economy is a science and comparatively a new one. Like all other sciences, though it is based upon certain great principles, the results and developments of the past fifty years have to some extent tended to modify it. Whatever may have once been thought, it is now generally admitted that paper money is not a standard. Neither is coin. Nothing that is in itself so variable and so constantly fluctuating in volume as money, in all shapes, can be a standard of value. A standard is fixed. We may have standards of measure. A bushel always measures a bushel and a yard always measures a yard. They are standards which do not vary. We cannot alter the size of these measures without destroying their utility as standards. The volume of money on the contrary may increase or decrease without necessarily affecting the relative values of commodities. The greenback is not a standard, but a representative of value, and as such we must regard it.

"It is certainly true," said an English writer in the *Edinburgh Review*, August, 1811, "that a "paper circulation, issued by a government and "increased according to its wants, has often "been found in other countries, and undoubt-"edly would be found in this, a very powerful "temporary resource." It is not only a temporary resource, but an absolutely indispensable one, in a country where the credit of the Government has fallen so low as to drive the precious metals from general circulation. The question with us is how to employ the resource most wisely and most advantageously. Notwithstanding the sad experiences which have followed the enormous contraction of the past two years, and notwith-

standing the great and pressing need for currency in all parts of the country, it is somewhat surprising to find so many public men still urging a rapid and forced contraction and a speedy return to specie payments. What is more singular is that the most of these men who are loudest in their assertions of the solvency of the Government, and of its capacity to meet all its obligations, should be the very ones to treat it as an insolvent, and to hold up to us, as a warning, the examples of France and Russia and other countries, who, in time of need, resorted to a forced issue of paper money. But it was the abuse of paper currency that led to the deplorable results which followed, and not its use. If Russia issued more paper roubles, or France issued more assignats, or the American Provinces issued more Continental money than they could possibly find gold enough eventually to redeem or obtain credit sufficient to fund, that surely is very different from the action of a Government which issues paper, when required by the business wants of its people, in a country where the production of precious metals, which is now $100,000,000 per annum, is nearly one-half as great, as was the whole supply to the Christian world some twenty years ago, and which has proved conclusively that it can fund its paper circulation at any moment that it will itself consent to do it.

It will surely be conceded that currency of some kind is absolutely necessary for the ordinary transactions of every day life and that when gold is driven from circulation it must be replaced by some other material. Paper money is in itself not a value so to speak, but it is the representative of values and when the necessities of a Government have forced it into the use of paper currency, it is the duty of that Government to give to its citizens the best kind of paper currency adapted to its wants and also an abundance of that currency, so as to facilitate the transactions of internal trade. Whether the best kind of paper currency has been provided for this purpose, is a question we will not discuss for the present. We do not hesitate, however, to assert that there is an insufficiency of it and that the interests of both Government and people can best be subserved by a temporary expansion, to continue, according to the requirements of the business community, until the credit of the Government is raised to a specie paying point.

We are by no means advocates of an unlimited issue of paper. It is an evil which has been forced upon us and of which we cannot rid ourselves by arbitrary means. What we desire to see is the adoption of such measures as will soonest relieve the Government and elevate its credit, so as to secure the convertibility of its currency without unnecessarily harassing the individual. And this, we believe, is best to be accomplished by the adoption of a fixed financial policy, by the cessation of contraction and by a further issue of legal-tender currency.

The Insufficiency of Currency.

No practical man, who is largely engaged in business transactions, can intelligently maintain that there is, at present, a sufficiency of currency in any part of this country. In our own city it has been at no time abundant during the past two years, while at times its scarcity has been most annoying. Even in New York, the great commercial centre, the point in fact of issue and redemption, it is by no means too plentiful, while in many portions of the interior, particularly in the Northwest, and especially in the South, its almost total absence is extremely prejudicial to the interests of the community and of the Government itself. Its scarcity hampers trade, hinders cultivation and prevents the development of private wealth and the increase of taxable property. We read constantly in the papers of forced sales, made in the South where most ruinous sacrifices are constantly submitted to. In the *Tribune* under date of December 24 we read of a fine residence and ten acres of land which sold in Georgia for $60, and of 450 acres of prime land which fetched only $150. These are stated to have been *bona fide* sales. The correspondent giving the information says "It was Court day

"and a large concourse of people were present. "The most of them were large property own- "ers, but really had not $5 in their pockets and "in consequence would not bid, as the sales "were for cash." Paper money may not actually be a value but it is certainly a medium of exchange, and the United States legal tender note is the currency in which the exchanges of the country are at present made. A man may barter his horse or his ox or his gold watch or his diamond pin, all of which have value; but he cannot buy with them at public sales, where property is sold for cash payable in the established representative of value. If it is an arbitrary measure on the part of a Government to make paper the currency of a country, it is a much more arbitrary act to make forced sales payable in this currency and yet not to provide a sufficiency of it to enable the community to effect purchases or to negotiate its ordinary transactions.

But the want of currency, which is so evident to most people, and the unfortunate business experiences of the past year are not the only proofs of a deficiency of circulation. Men who talk so freely and write so loosely about paper currency, its volume and its effects on trade, do not even take the trouble to examine the works of political economy, to which they refer by name, and the valuable statistics they contain. The truth is that we have not to-day in this country as much currency *per capita* as there is in England or in France. People are too much misled by the loose statements which are constantly being made of the volume of currency in circulation in this country before the war. Yet, a fair comparison made between it and the circulation to which it is now proposed to restrict the country, will show *ceteris paribus* a decided decrease of currency in the last decade.

The currency to-day consists of United States notes $357,000,000, and National Bank notes $293,000,000. We take no account of the small note circulation, as that is about equal to the average currency cash balance retained by the Treasury Department, nor of the legal tender compound interest notes, as they are being rapidly withdrawn from circulation. We are to have, therefore, a total note issue of $650,000,000. If we deduct from this the amounts held by the banks as a reserve fund, which was in October, 1866, $205,770,640, and which we will estimate at $200,000,000, we will have $450,000,000 as the total proposed available active circulation.

The bank circulation for the years 1858, 1859, 1860 averaged over $200,000,000. The specie in bank averaged over $92,000,000. It was estimated that the amount of specie afloat was about equal to the bank note circulation. If we place it, however, only at $150,000,000, we still have a total circulation of $442,000,000. Deducting from this the reserve of specie held by the banks of $92,000,000, and we have left an actual active circulation of $350,000,000 on a specie basis, which, at a premium of 35 per cent., is equal to $472,500,000 in paper currency. So that, without taking into calculation the growing population of this country, its increasing business, and, what is really more important, the increased requirements for currency rendered necessary by the abolition of the credit system, we find that the circulation to which it is proposed to restrict us is actually less, calculated on a gold basis, than it was before the war.

In 1858, estimating the population at 30,000,000, the *per capita* circulation was in specie $11.86, equal at present prices of gold to $15.75. The proposed *per capita* circulation after the withdrawal of the compound interest notes, estimating the population at 35,000,000, will be $12.86, considerably less *ceteris paribus* than that of ten years ago. Does not this show plainly that the volume of currency in the country is not sufficient for the actual wants of the community?

Before the war the paper circulation of this country was not composed simply of paper and coin. It consisted largely of notes or bills of exchange, which were generally in use under the old credit system. Few people have any idea of the small amount of currency which is required to do a credit business as compared with that which is necessary when trade is established on a cash basis. During the suspension of the Bank of England, even after the close of the war in 1815, notes or domestic bills of exchange formed a large portion of the circulation of England. TOOKE, in his work on Currency, p. 27, quotes the testimony of Mr. LLOYD, a most intelligent and leading banker, afterwards Lord OVERSTON, who was examined before the House of Lords in 1819, when the question

of resumption of specie payments was before that body. He testified that in Lancashire the circulation was carried on in Bank of England notes and Bills of Exchange, and that the latter were to the former as nine to one. There were short bills given for goods bought on credit. They were passed from hand to hand, and were covered with endorsements. This system has, by the resumption of specie payments and by the high stamp tax placed on these notes, and by the more general cash system which prevails, been done away with long since. But the place of these notes has been supplied by coin, and the *per capita* circulation in England is probably even greater now than it was then. The amount of gold and silver employed as currency in that country and held by bankers was estimated some years ago at £90,000,000. The *Encyclopædia Britannica* gives as a more prudent and probable estimate - - - - - £75,000,000

If we estimate the circulation of the Bank of England at - 25,000,000

The circulation of the joint stock and country Banks at - - - 6,500,000

That of the Scotch Banks at - 4,500,000

We have a total of - - - £111,000,000

to a population of about 25,000,000, or a circulation of over £4½ per capita, equal to $22½ on a coin basis. Mr. MORAN, in his work on Money, page 200, gives us as the received estimate a circulation of $28 per head. We will take, however, a medium of $25, at which rate, to supply a population of 35,000,000, we would require a circulation of $875,000,000 on a coin basis as against a paper circulation of $650,000,000, which is the present note circulation of the country, a considerable portion of which is locked up as a reserve fund in the Banks. We must reflect, too, that the estimate of coin circulation in Great Britain was made some years ago, and that it has doubtless been greatly increased since then by the immense amount of gold which has flowed there from California and Australia. We must remember that now that the credit system has been abolished, currency is not only as necessary here as in England, but even more so, and that a much greater amount is required. England is a small country in which currency circulates much more rapidly than here. The immense distance which currency has to travel here in order to move crops, and for other purposes, locks up a large amount of it. The comfortable condition of our laboring classes and the higher prices of wages in this country calls for a much larger volume of currency here to supply the wants of that class of the population, and finally, the convenience of paper money necessarily leads to the carrying about on the person much larger sums than would be carried if the currency were in coin. An immense amount of currency is uselessly locked up in this way, far more than people would generally imagine. There can be no doubt that to-day, where a much larger volume of currency is required, the *per capita* amount is actually far less than it is in England, where the principal circulating medium is coin.

In France the metallic circulation, according to MORAN, is $20 *per capita*. The *Encyclopædia Britannica* placed it some years ago at £140,000,000. LEVASSEUR and others estimated it at £160,000,000, which it has undoubtedly reached by this time. This would give for a population of 37,000,000 a *per capita* circulation of over $20. Last month the note circulation of the Bank of France was more than $225,000,000, which gives a note circulation of more than $6 *per capita*. So that the total circulation of France is more than $26 for each individual, rather in excess of that in England.

We call these facts to the very serious attention of the public, and we ask what sense and what reason there is in the further dimunition of a currency which is absolutely now too contracted for the wants of the community? The would-be political economists are constantly talking about the invariable law of supply and demand as the regulator of currency as of everything else, while the fact is staring them in the face that in every part of the country there is a demand for currency for which there is no adequate supply.

Currency and Prices.

There is a prevailing notion that increase of circulation necessarily leads to increase of prices. This is not so. A compulsory and inconvertible currency is liable to depreciation and a depreciated currency naturally tends to enhance prices. When the issues of paper money by a Government are regulated solely by the necessities of that Government, the power to issue paper is naturally subject to great abuse. But when the issues of paper currency are regulated by the wants of the community and when a Government is steadily pursuing a course which facilitates trade, which encourages production and which must eventually secure the convertibility of its currency, it is not so liable to abuse and does not necessarily lead to an enhancement of prices.

Mr. MCCULLOCH, in his report of 1864, when he was Comptroller of the Currency, states that gold rose between January and July of that year from 52 to 185, and fell between July and October from 185 to 87. He says: "None "of these fluctuations were brought about by "an increase or decrease of the currency; on "the contrary, gold rose the most rapidly "when there was no considerable increase of "the currency and fell in the face of large ad- "ditions to it." Mr. FESSENDEN, then Secretary of the Treasury, in his report the same year, says: "The experience of the past few "months cannot have failed to convince the "most careless observer that, whatever may "be the effect of a redundant circulation upon "the price of coin, other causes have exercised "a greater and more deleterious influence. In "the course of a few days the price of the "article rose from about 150 to 285, and sub- "sequently fell, in as short a period, to 187, "and then again rose as rapidly to 260, and all "without any assignable cause, traceable to an "increase or decrease in the circulation of "paper money."

The experiences of Mr. MCCULLOCH and Mr. FESSENDEN are supported by Mr. FULLARTON, a much higher authority. In his *Regulation of Currencies*, p. 23, he says: "On the receipt of the news of BONA- "PARTE's landing at Elba, the price of gold "in the London market rose ten per cent. in "one morning, and that, without the slightest "alteration whatever in the amount of the "inconvertible issues of the bank. In the "course of a few days more, the advance of "price amounted to twenty per cent., and the "advance was maintained until after the bat- "tle of Waterloo, when the price of gold fell "nearly as rapidly as it had risen, and in a "manner equally unaccounted for by any cor- "responding movement of the bank circula- "tion."

In September, 1864, gold ranged in this country from 185 to 255. In September, 1865, in face of an increased National Bank circulation, and the issue of $320,000,000 seven-thirty notes, many of which were capable of being used as currency, and doubtless were for a time used as such, gold ranged from 142 to 145. It must be very evident, from these facts, to the most superficial observer, that the value of the Government paper currency did not fluctuate with its increase or decrease, but, to a great extent, with the appreciation or depreciation of the credit of the Government, upon which the currency was based.

But even if the credit of the Government were firmly established, prices would not necessarily be affected by the increase of currency If we could keep currency in the same area, with the same population and with the same annual production, currency would then be probably subject to an inevitable law of supply and demand. But we live in an age and a country where everything is changing and everything is advancing. New discoveries have been made new avenues have been opened, additional impulse and impetus have been given to the movements of population, territories are daily being settled, enterprise is stimulated, and commerce and intercourse are being extended. If we were to take the strict rules laid down by early writers on political economy, we might perhaps be led to conclude that even a large increase of metallic currency would necessarily produce a great enhancement of prices. How far this idea is correct, a reference to the gold statistics of the world will show.

The total supply of gold and silver in the civilized world was, in 1492, £34,000,000.

During the next eight years the supply brought from America was £52,000 per annum, an annual increase from this source alone of 1½ per cent. Yet TOOKE, in his *History of Prices*, vol. vi., p. 232, tells us "no rise "of prices can be discovered until 1570, fifty "years after the entry of the Spaniard into "Mexico, and almost thirty years after the "discovery of the Potosi silver mine. The "ultimate range of prices was not reached till "1640; and in 1640 and subsequently, the rise "of prices was equal to about 200 per cent., "while the increase of the whole stock of gold "and silver was equal to at least 600 per "cent."

In the beginning of this century, according to CHEVALIER, the highest acknowledged authority on the subject, the annual supply of gold and silver to Europe and America was, gold £3,312,000 and silver £7,965,000, giving a total of £11,277 000 as the annual amount which went to augment the metallic wealth of the Christian States. According to the American *Cyclopædia* the amount estimated in dollars was $64,900,000, which is about the same.

The American mines obtained the maximum of their productiveness in 1809, the production of the American, European, and Russian mines then amounting, according to the *Encyclopædia Britannica*, to £12,500,000. The revolutionary disturbances which then commenced, and which terminated in the dissolution of the connection between Spain and her American colonies, materially lessened their production. There was, however, after the increase of the gold washings in Siberia and the opening of the Oural Mines, a continued increase of the production of precious metals, the annual amount of which placed on the general market prior to 1848, the year of the discovery of gold in California, was, as estimated by CHEVALIER in an article in the *Journal des Economistes* in 1866, 462,553,000 francs or about £18,500,000.

In 1858, according to the same author, the annual supply of gold was £37,950,000, and of silver £8,850,000, making a total of £46,800,000. In other words, after the year 1848, the annual production of precious metals was nearly trebled. And this rate of increase still continues, notwithstanding the decline of production in Australia.

CHEVALIER estimates, in the *Journal des Economistes*, the production of precious metals in 1864 as follows:

United States and British America - - - - - - francs	320,221,000
Mexico and South America	227,449,000
Total for America -	547,670,000
Europe - - - - - -	55,317,000
Russia, European and Asiatic - - - - - -	89,812,000
Australia - - - - - -	321,111,000
Total - - - - - - francs	1,013,910,000
But as the production of California has increased, and was in 1866 over $100,000,000, we must add to the yield of the United States and British America, say - -	186,090,000

Which will give a total of, francs 1,200,000,000 or about £48,000,000 per annum.

In this calculation no account is taken of the yield of Africa, India, China, Japan, and the Phillippine and Sandwich Islands. CHEVALIER estimates their annual production of the previous metals at 386,666,000 francs, or say £15,466,640. But they are not supposed to contribute to the supply of the Christian world.

According to the New American *Encyclopædia*, the quantity of gold and bullion in Europe in 1847 was £250,000,000. This is probably tolerably accurate, as the *Encyclopædia Britanica* estimated the entire currency of Europe, some years back, paper and coin, at only £500,000,000. Let us even put the coin at £350,000,000, or say - - $1,750,000,000.

And let us estimate the precious metals in circulation at that time in North and South America even at - - - - -	$500,000,000
Which gives us a total of - -	$2,250,000,000

Then estimating the annual production of these metals for general consumption at £48,000,000, or $240,000,000, we should have a supply from 1848 to the present date, say 20 years, of $4,800,000,000, an amount sufficient, if only one-half of it went into general circulation, to double the metallic currency of the Christian world, even at the very high estimates we have allowed for the coin circulation of Europe and America in 1847.

If expansion of currency necessarily tended to inflation of prices the consequence of this enormous and constant increase of the precious metals would be prodigious. Prices should certainly have trebled since the beginning of the century and, during the last twenty years, they should have doubled. What are the facts?

In England the average price of wheat in

1792	was in specie - - - -	shillings	42.11
1800	was in paper currency, gold being at a small premium - - - - - - - - -		113. 7
1810	do. do. gold being at 9 per cent. premium - - - - - - - - - -		110.62
1815	do. do. gold being at 19 per cent. premium - - - - - - - - - -		64. 4
1857	do. in specie - - - - -		49. 5
1864	do. do. - - - - -		38. 4
1865	do. do. - - - - -		46. 5
1866	do. do. - - - - -		61. 7
1867	do. do. - - - - -		68. 1

In Boston Flour sold, according to McCULLOCH's *Dictionary of Commerce*, in

1775	per barrel, at - - - - -	$12 —
1796	" " " - - - - -	16 —
1834	" " " - - - - -	5.50
1859	Flour sold in New York at - -	4.20
1860	" " " " at - - -	5.20

Mess Pork which sold in 1859 at $17.70 gold, equal to about $24 to-day, sold last year for $19.25, and leather which sold in 1856 at at 23½ cents, equal to 31½ cents paper currency, is quoted to-day at 25 cents.

We could go on multiplying these examples *ad infinitum*, were it necessary. We will content ourselves, however, with giving a few extracts relating to the effect of currency on prices, taken chiefly from Mr. MORAN's work on money, published by the APPLETONS, and largely made use of, without credit, in more than one newspaper article which has come under our notice. Mr. MORAN states that "the discovery of the gold mines in Australia "caused the prices of all things to quadruple in "two years, from August 1851 to July 1853. In "the subsequent eighteen months most com-"modities gradually fell until they touched "ruinous prices."

Mr. NEWMARCH says: "The level of wages, "and the prices of certain kinds of commodi-"ties in Melbourne were reduced to the level "prevailing, *cæteris paribus*, in other countries. "* * * The effect of the increased supplies "of gold in Victoria, in largely increasing the "prices of commodities within the colony, "was temporary, as concerns the most numer-"ous class of commodities."

"In California," says Mr. MORAN, "the effect "of the gold mines was very similar. In 1848 "and 1849 prices were excessive, whilst in "1851 goods were often not worth their "storage."

MACLEOD, in his *Theory and Practice of Banking*, alluding to the position of the Bank of England in 1793, says: "We find that the "bank had fully kept up its circulation and "largely increased its discounts, while it sup-"plied the country with a large amount of "gold; and yet the prices of almost all commo-"dities were lower in 1793 than they had been "in the two years preceding, and the price of "wheat was below the average of the three "years previous to the harvest of 1791."

TOOKE, in his *History of Prices*, vol. 1, p. 206, states that "in 1798 the increased issue of paper "was accompanied by a great fall in the price "of provisions," and again he says, page 291: "If it was the amount of bank notes that "raised prices in 1800 and 1801, how happened "it that an increased amount in 1802 did not "sustain the prices, and much more, prevent "a fall of above 50 per cent?"

Again, he says, p. 361, that in 1809, "not-"withstanding a further increase of bank "notes, the prices of all commodities fell con-"siderably with such increase;" and again p. 313, that "nearly all objects of ex-"change were lower in 1810 and 1811 than in "1800, in few instances less than 20 per cent., "and in some instances upwards of 50 per "cent. as measured in paper, while gold had "risen 25 per cent."

Finally, Mr. TOOKE says, vol. iii., p. 109, "It is a positive fact that England was "the cheapest country in the world at the "time when gold was 25 per cent. and up-"ward above the mint price."

As the abundance or scarcity of currency is to a considerable extent marked by the rates of interest which it commands, we will close these extracts by one taken from another

work by the same author. In TOOKE, *On Currency*, p. 83 it is stated that the rise in the rate of interest charged by the Bank of England in 1839, from 4 per cent. to 6 per cent., had no depressing effect on prices. There was a great feeling of uneasiness and even of alarm. Yet although the value of money had advanced 50 per cent. the markets for produce had been well maintained. From 1840 to 1842 the progressive fall of the rate of interest was accompanied by a marked fall in most of the leading articles of consumption, the greatest depression coinciding with the lowest rate of interest, viz: 1 1-2 per cent. A fall in the rate of interest from 1818 to 1822 was accompanied by a still greater fall in the price of commodities, and instances without end, says Mr. TOOKE, could be multiplied to the same effect.

A careful study of the financial history of England since the beginning of this century, and of the history of the Bank of England, will lead to but one conclusion, which is that prices are, as a rule, regulated by the cost of production and by the laws of supply and demand, and that they are not necessarily affected by an increase of circulation, when that circulation has intrinsic value in itself or is based upon a credit, in which the community has confidence.

Contraction and its Results.

We have endeavored to demonstrate that an expansion of currency does not necessarily lead to a rise in prices. The converse of the proposition is not so true. Contraction, or even the want of proper expansion at times, when demanded by the interests of the community, leads often to ruinous results. Never was this more fully exemplified than in the panic of 1847 in England, a full history of which will be found in FRANCIS' *History of the Bank of England*. In the autumn of that year the greatest houses in the corn trade came down, and with them them a whole host of lesser firms. "The effect of these failures," says FRANCIS, "was to augment in a most se-"rious degree both the demand for money and "the general alarm. * * * Never was "there a time in European History when, "from the combination of so many causes, "large bank advances, to support credit "and carry on undertakings, were "so loudly called for, and the bank had ample "means to meet them, but the bank charter "stepped in and locked up £8,000,000 in the "issue department." Again he says: "At this "critical juncture, when, beyond any other "recorded in British history, liberal paper ad-"vances were most called for to sustain the "credit and currency of the country, now "strained to the uttermost by so many con-"curring causes, the bank notes of the two "islands were, by the operation of the Bank "Charter Act, contracted to the extent of "£8,000,000, below what they had been two "years before. It may safely be affirmed that "a more ruinous and suicidal act never was "perpetrated by any government in any coun-"try, and it is no wonder that it produced the "most disastrous effects." The most earnest representations were made to Sir ROBERT PEEL, who, however, stood firm. Finally they became so urgent that the Administration was forced to yield, and at last, in October, Lord JOHN RUSSELL and the Chancellor of the Exchequer wrote the celebrated letter authorizing the bank to issue notes beyond the prescribed limits of the act. This virtually put a stop to the crisis. The stagnant and straitened condition of the country wanted new life and aid, and the suspension of the act, which restricted circulation, acted at once as a charm, says FRANCIS, in restoring the suspended vitality of the country. In three months the rate of interest fell from 8 per cent. to 4 per cent.

Mr. HUSKISSON, a member of the LIVERPOOL Ministry, who took a leading part in the debates on currency in the House of Commons, prior to the resumption of specie payments in 1821, said in 1818 that the facility, enjoyed by Great Britain of extending her paper circulation, gave a stimulus to the arts and industry of that country; but that when, after the close of the war, the Bank of England found it necessary to purchase bullion on the continent to meet its engagements at home, the Continental States, which were debarred from increasing their paper circulation, suffered considerably in the

confusion of business and deterioration of property. Much of the distress that prevailed upon the Continent was attributable, according to Mr. HUSKISSON, "to the contraction oc-"casioned by the withdrawal of a large "amount of coin, and the failure or inability "on the part of the Continental States to re-"place it with paper currency."

It is very evident, as a general rule, that, while a proper expansion of the currency augments profits and enhances enterprise, an improper contraction has always a most damaging effect, and it is more than probable that the enormous contraction of the past two years has exercised a most pernicious influence on the business of this country.

Mr. FREEMAN CLARKE, in his report as Comptroller of the Currency, made December 4, 1865, gives as the available currency of the country $960,167,326. As at that time the entire amount of National Bank circulation had not been delivered to the banks, although included in the foregoing estimate, we can take this as the amount of currency in the country on the 1st day of January, 1866. Mr. MCCULLOCH says expressly that on the 31st day of August, 1865, a very large portion of the legal tender notes and obligations of the Government were then in circulation as currency. They amounted to $684,128,959. The fractional currency and National Bank notes in circulation, when added to this amount, will give a total exceeding the estimate of Mr. CLARKE.

On the 1st of November, 1867, when Mr. MCCULLOCH found himself forced by circumstances to abandon further contraction, the outstanding currency of the country consisted of United States notes, $357,164,844; fractional currency, $30,706,433; compound interest notes, $62,558,940; three per cent. certificates, $11,560,000—making the total amount of legal tenders $461,990,217. To this is to be added the National Bank currency say $223,000,000, which gives us a total paper issue of about $755,000,000 as against $930,167,326, showing a contraction of $205,000,000 in twenty-two months, an average of nearly $9,500,000 per month. And this, it must be borne in mind, gives no adequate idea of the real contraction which has been going on, for besides this there have been funded $525,000,000 of seven-thirty notes, which at one time had a very important influence on the circulation.

With these facts staring us in the face, is it to be wondered at that we hear the same cry from Maine to Louisiana, from Massachusetts to Missouri? Everywhere extreme depression prevails. Stagnation and failures are facts which force themselves, says the New York *Times*, on all. For months past, while it was evident that the community generally needed relief, a ruinous policy of contraction has been recklessly pursued, until at last the business of the country, suffering at the same time seriously from other important causes, has been every where prostrated. Yet when the currency in circulation, which is far less, it must be recollected, than the paper in issue, is evidently inadequate to the wants of the community, and far less *per capita* than the circulation of either England or France, there is still a talk of further contraction, and the $62,000,000 of legal tender compounds still afloat are to be withdrawn and funded within a comparatively short space of time.

Is it any wonder that money cannot be had in most parts of the country for less than 10 to 20 per cent.? Is it astonishing that even in New York, short bills which were quoted in the New York *Tribune* October 13, 1866, at 5 to 6 per cent. are to-day quoted at 8 to 12? Is it extraordinary that large property holders and owners of fine farms in Virginia, which are only a few hours' ride from Baltimore and perfectly accessible to free labor, cannot borrow money, on excellent mortgage and collateral security, for a few months, at less than 15 to 20 per cent.; or is it at all singular that money commands such exhorbitant prices in the West? In England and France, where there is a sufficiency of currency, the long continued stagnation of trade and the lessened demand for currency has put its price down to an almost nominal rate. In England it has been for weeks at a time quoted at 1½ per cent. per annum. Here, on the contrary, at the very time when our people are suffering heavily from pecuniary losses and are most unable to pay high rates of interest, so great everywhere is the scarcity of money, that borrowers are forced to pay ruinous prices for it, prices which no community can afford to pay, except during times of the highest prosperity.

The rates of interest *on call* which are quoted

in New York, in the money reports, give no fair idea of the real value of money. People who buy and build and plant, cannot borrow money returnable at three hours notice. The price paid for the use of money for one day is no more a test of what it is worth, than the price paid for the use of a lot for one day is a proof of what it would lease for. The rate of interest is that which solvent businessmen have to pay for it, by the month, and not what Wall street speculators pay for it, by the hour. If the value of money is at all regulated by its supply and demand, it must be evident, from the price it brings, that there is a most annoying scarcity of it at present.

Currency and Resumption.

The aim of this Government should be to give relief to the community, to stimulate enterprise, and to develop the resources of the country, so as not only to enable people to pay their taxes but also to increase the taxable basis of property. This is the true way to elevate the credit of the country, and to ensure the convertibility of its currency. Until this can be effected, the Government must use its paper credit for the purpose of affording to the community the amount of circulation that is absolutely needed, for its requirements.

We do not propose to discuss what is money and what is not. We know very well that paper in itself is no more money than water is a horse. Yet, water converted into steam, and placed under intelligent control, replaces horse power, and is capable of being used to produce most extraordinary and beneficial results. Paper money is a representative of value, which value is based upon the credit of the party issuing. If it is not capital in itself, it is capable of being made to call into activity capital that would otherwise lie dormant. Where there is no other currency, and where it is the only medium of exchange, it is absolutely necessary that there should be a sufficient issue of it, provided such issue is regulated by the requirements of the community, and not by the necessities of the Government. The use of paper currency, regulated by the wants of the community, may be attended by most beneficial results. Its abuse by a government in times of need generally produces most disastrous effects.

By the use of paper currency the credit of a country may be improved, and anything which tends to improve that credit, necessarily gives additional value to the paper currency which is supported by that credit. So far, the axiom that the issue of paper currency by a government has invariably been abused, has been flatly contradicted by the experiences of the past few years. In another sense, perhaps, it is being abused; but then it is an abuse by sudden contraction and not by over-issue. The credit of this country was at one time sustained by the issues of paper money, and its credit will best be maintained by a cessation of the policy of contraction and by such expansion as is necessary to meet the universal demand for currency. In a very short space of time the pursuit of such a policy would elevate the credit of the Government to a specie paying point.

The debt of this country reached its maximum on the 31st of August, 1865. It was then $2,757,689,571. Secretary McCULLOCH tells us in his last report that it has since been reduced $266,185,181, in other words, nearly ten per cent. in a little over two years. In 1815, after the termination of the French and American wars, the national debt of England was £861,039,049. In 1854, when the Crimean war broke out, it was £775,215,559, showing a reduction of £85,823 530, about ten per cent, in forty years. Is not this comparison startling? What do these figures demonstrate but an extraordinary capacity on the part of this Government to sustain its credit and to meet its engagements? What better proof can be given of the real value of the values which its paper currency represents, and what folly to talk of the depreciation of the paper money of a country, which in so short a time has effected a reduction of its war debt which is simply marvellous, and which has shown that, even in a condition of reasonable prosperity, it can pay off its debt with a rapidity which has had no parallel in history. But, to enable it to accomplish this result, business must be encouraged by the supply of necessary circulation and not be hampered by an imprudent and forced contraction.

When this country is in a condition to resume specie payments it will return to them naturally. Meanwhile unwise legislation only tends to create a want of confidence and to delay the very end every one is most desirous of seeing accomplished. The folly of the attempt to return to specie payments by act of Congress can be easily shown by a reference to the History of the Bank of England, a National Bank, the credit of whose notes was virtually based upon the credit of the Government. The Bank suspended specie payment in 1797, and did not resume for 25 years. At no time was the currency of England so deranged as it was in this country. The highest premium ever touched by gold was in 1812–13, when it reached 41 per cent. In 1815 it had fallen to a premium of less than 15 per cent., when the news of the landing of NAPOLEON immediately ran it up to 38 per cent. After the battle of Waterloo the price of gold fell as rapidly as it had risen.

In 1816 so great was the confidence manifested in the issues of the bank that the premium fell to 2½ per cent., and later in the year to less than 1 per cent. Yet, even then, experience showed that the country was not prepared for a return to specie payments. FRANCIS, in his *History of the Bank of England*, p. 163, says:

"In 1817 the directors, desirous, perhaps, of 'testing the feeling of the public with regard "to metallic payments, announced, that after "the 2d of May of that year, they would pay "cash for all their notes of one and two "pounds, dated prior to the 1st of January "1816, or exchange them for new notes of the "same value. The confidence, however, of "the public was great, and scarcely any de"mand was made upon their coffers. In Oc"tober of the same year a further notice was "issued, that on and after the 1st day of Oc"tober, they would be ready to pay gold for "all their notes dated prior to 1st of January, "1817. Every exertion, since the commence"ment of peace, had been made to resume "specie payment with safety. The collection "of bullion had been rapid, and to a large "amount; and it was soon found that these "precautionary measures had not been thrown "away. The difference between a legitimate "demand for gold by the public, and a de"mand for the same material by speculators, "was rapidly witnessed.

"When the one and two pound notes, that "description of paper held principally by the "poor man, were called in, the amount of "cash claimed was not more than one million. "When, however, it was announced that all "notes prior to a particular date would be "paid in specie, the bullion speculators stepped "in, took advantage of the exchanges, and "sent more than five millions to the conti"nent. On the report of Mr. PEEL, the "House passed a bill in two nights, restraining "the bank from paying the notes alluded to."

Yet, in some parts of the country, bullion was then so abundant that the country bankers found it difficult to dispose of their coin.

During the next two years the price of gold rose slightly, reaching about 4½ per cent. premium. Early in 1819 the Directors of the bank, satisfied that an immediate resumption of specie payments was impossible, suggested a committee of inquiry. A committee of secrecy was appointed by Parliament. Leading merchants, bankers and bank directors were examined and after a full investigation of the subject, the bill known as PEEL's Currency Bill was adopted. This Bill provided that from February to October, 1820, the bank should deliver gold of standard fineness, not less than sixty ounces, for bank notes at the rate of £4 1s. per ounce, a premium of about 4½ per cent., the mint price being £3, 17., 10½d. From October 1820, to May, 1821, gold to be delivered at the rate of £3, 19s. 6d. From May, 1821, to May, 1823, gold to be delivered at the mint price, with the adoption of the same plan, and from the 1st May, 1823, all notes to be paid in gold coin of the Empire, if demanded. The bank, however, did not avail itself of the indulgence granted. In 1821, after a quarter of a century, it resumed specie payments two years before the time required by law. The Bank had suspended in 1797 in consequence of its connection with the State, to which it had loaned its entire capital. It resumed specie payments after the credit of that State had been firmly established, and not until then.

When the credit of the Government is elevated to a proper point it can return to specie payments, and not before. The Bank of

England was unable to resume two years after the close of a long war, although gold was at a nominal premium. It did not finally resume until about six years after the declaration of peace. How can we expect to resume specie payments when the terrible effects of the war are still exerting a most pernicious influence, and when gold is at a premium of 35 per cent.?

The Policy of the Government.

While we have endeavored to point out the mistaken notions which exist in regard to paper currency and its effect upon prices, and while we oppose contraction and advocate expansion, we do not wish it to be supposed that we are not fully alive to the difficulties of the situation. The United States Government, in the midst of a most perilous crisis, was forced, by its necessities, to resort to the issue of paper currency. It has driven the precious metals from circulation, and made coin an article of commerce, a commodity. It has given to its citizens a currency which is based upon the credit of the Government, and its aim and desire should now be to adapt that currency to the wants of the community, and to make it equal in value, as a medium of exchange, to a metallic currency; in other words, to elevate the credit of the Government to a specie-paying point.

While we advocate an increase of currency, we do not recommend it as an universal panacea. We know that the complaints of stagnation and paralysis, which come to us from all parts of the country, and the anxiety and despondency which exist everywhere are not occasioned solely by contraction, and are not to be relieved by expansion. But we do believe that the final abandonment of the policy of contraction and an additional issue of currency, regulated according to the wants of the community, will tend to restore confidence, will stimulate enterprise, give vitality to trade, and call into play an amount of dormant power and capital which will enable the Government to enforce, with comparative ease, the taxation which is indispensably necessary for the maintenance of its credit. The cry for diminution of taxation, which is daily being heard, is not the remedy for the evils which exist. Diminution of taxation means non-payment of interest, and that means repudiation. The true remedy consists in the development of the capital, the industry and resources of the country, so as to enable citizens to bear taxation, and to put the Government in a condition to meet its obligations. To hamper industry and to restrict the operations of trade and commerce by arbitrary measures is false policy. The great object of the Government now is not only to sustain its credit, but to place it on a permanently firm basis. To do this it must develop the tax-paying power of the community by the application temporarily of a moderate stimulus, and at the same time reduce as far as possible its annual expenditures, and take measures for the establishment of a sinking fund, which in a few years will lessen the debt, and thereby not only improve the Government credit, but remove the necessity for heavy taxation.

Our paper note-currency consists now of United States notes $357,000,000, and National Bank notes of $293,000,000, making a total of $650,000,000. There are now payable, at the option of the Government, 5-20 bonds of the issue of 1862, amounting to $514,780,500. The first step to be taken, for the purpose of relieving the country from its currency embarrassments, and the Government from its financial difficulties, is to pay off these bonds in United States legal-tender notes, and at the same time to withdraw the National Bank notes from circulation. After the final withdrawal of the compound interest notes still unfunded, we should have a legal-tender issue of $357,000,000 and $514,780,500, making in the aggregate about $870,000,000. Deducting from this the amount which would be held by the banks as a reserve fund against their deposits, at the very low estimate of $120,000,000, we would have a floating active circulation of $750,000,000. In 1860 the population of this country, exclusive of Texas and California, where a large portion of the currency in use is coin, was over 30,000,000. Estimating it to-day at 35,000,000 this would give us a *per capita* paper circulation of $21.43, scarcely four-fifths of the *per capita* circulation of England, and very probably about two-thirds that of France, for we have taken great care in all our estimates to err on the prudent and safe side.

By the adoption of such a policy the Government would at once effect an annual saving of the interest on the bonds paid off, over $30,000,000, payable in gold. By the withdrawal of the National Bank notes it would put an end to the confusion arising from different kinds of national currency, and it would be able to render the currency more elastic, a most important feature, and to adapt its volume more intelligently to the requirements of the community. By authorizing and directing the Secretary of the Treasury to receive currency at any time from capitalists, and to issue therefor demand certificates, not bearing six per cent., as proposed by Senator SHERMAN, but bearing a low rate of interest, say three or even four per cent., and not capable of being used as legal tenders, the dangers arising from over accumulation at financial centres would be avoided, while, at the same time, no money would be drawn away by this means from the interior of the country, where currency is needed and where interest rates are high.

The 5 20's paid off, as recommended, could be set aside as a sinking fund, which at compound interest, if gold remain at a premium for two or three years longer, would double itself in eleven years, or, in other words, reach the enormous sum of $1,029,561,000, very nearly one-half of the whole interest-bearing debt, which now amounts to $2,219,660,351.

Can any one doubt that if such a policy were pursued, there would soon result from it a marked increase in the confidence of the creditors of the Government in its ability to meet its liabilities, and that a fatal blow would thus be given to the doctrine of repudiation which has taken root and is gradually gaining strength in the West? Can any one doubt that restored confidence and the prospect of a rapid extinction of a large proportion of the public debt would do more to elevate the currency to a specie standard than anything else?

The gradual appreciation of the currency, which would result from the adoption of this policy, and the diminished amount of gold which would be required for the payment of interest, would, within a year or two at farthest, authorize a change in the revenue laws, and the payment of at least one half of the customs in legal tenders. Indeed the payment at once of nearly one-fourth of the gold interest bearing debt would enable the Government to direct almost immediately the payment of one-fourth of the import duties in currency. This would not only be a great relief to the commercial interests of the country but would also be a great step towards resumption. The proper period for resumption would manifest itself by the diminished premium on gold, and when that period did arrive the Secretary of the Treasury, by paying out his $100,000,000 in coin and withdrawing from circulation an equal amount of legal tenders, and by converting all circulation which was tendered into long bonds—Congress, of course, giving him the necessary authority—would doubtless rapidly reduce the paper currency of this country within the required limits, and adapt its volume to the necessities of the business community.

Let any one study carefully the immense advantages that would result from the withdrawal of National Bank notes, the issue of legal tenders and the establishment of a large sinking fund, as proposed, and then let him ask himself if it is right or just that the interests of a few bank capitalists should be protected at the expense of the interests of the country, while its capital and industry are everywhere taxed to their utmost, and let him doubt if he can what is the best financial policy for the Government to adopt.

Another and a better plan would be the establishment of a maximum of paper issue, a revision of the National Bank system, a removal of all restrictions as to the number of banks and the amount of their circulation, their circulation being still based upon public securities, and the confinement of that circulation as much as possible within certain limits, by making it redeemable at the locality, or within the limits of the State, where it was issued. The distribution of circulation would thus be rendered more perfect, and improper expansion would be avoided by the withdrawal from circulation from time to time of United States notes corresponding in amount to the additional issues of State currency. For the privilege of issuing such currency, banks could readily pay a tax of five per cent. Country banks would more than earn it by

the additional facilities they would enjoy, and city banks, which preferred the National circulation, could use it.

The trouble about National Currency is that it tends to one central point, as naturally as water flows to the sea. There are great water sheds and even lowlands where there is an abundance of water, and yet at times a great want of it in certain localities. In India and in Piedmont the water from the hills is dammed up in reservoirs and thence distributed and kept within proper limits by an intelligent system of irrigation. The result is that lands, which would otherwise be arid and comparatively sterile, are made extraordinarily productive. It is just the same with our National Currency. It loses much of its effectiveness because it cannot be dammed up and is not fairly distributed.

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